THE BOND BUYER

Muni yields finally rise, but record inflows linger

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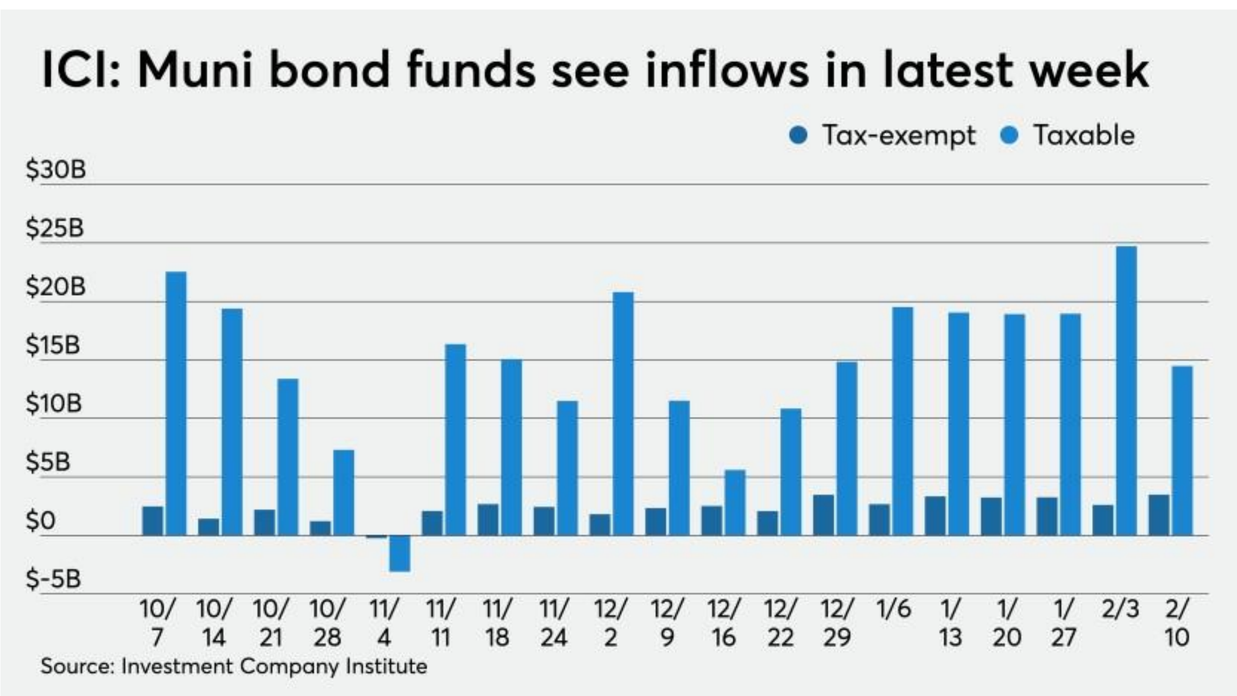
Municipals sold off Wednesday after a weeks-long steady period during which they barely budged a basis point or two up or down, even as U.S. Treasuries pared back recent losses and equities were mixed.

The municipal secondary gave way to higher-yield trades on high-grade names and triple-A benchmarks rose two to five basis points as a result. New deals still fared well, though some issues moved to the day-to-day calendar as participants wait to see whether the correction Wednesday was a one-off event.

The fundamentals are strong, though, with supply still light on a relative basis. The Investment Company Institute reported a record $3.483 billion of inflows into municipal bond mutual funds for the week ended Feb. 10.



Given the muni yield correction and the little-changed U.S. Treasury market, municipal to UST ratios rose four basis points to 58% in 10 years and three basis points to 68% in 30 years, according to Refinitiv MMD. ICE Data Services showed ratios rose two basis points to 58% in 10 years and three basis points to 69% in 30. BVAL showed 10-year ratios fell two basis points to 56% and were three basis points lower at 70% in 30 years.

"Treasuries bounced on Tuesday, but firmed [Wednesday], and MMD is cutting the municipal scales," making it the second in as many days, according to a New York municipal manager and underwriter. "That definitely shakes people up," especially following consecutive weeks of steady and unchanged movement in most triple-A scales, the underwriter added.

"It's definitely something to be aware of and to watch carefully, especially with a lot of deals coming on the calendar," he said, pointing specifically to a few billion-dollar New York credits waiting in the wings.

Trading showed Utah 5s of 2022 trade at 0.07%, Minnesota 5s of 2022 at 0.06%-0.07%, North Carolina GO 5s of 2022 at 0.06%-0.07%.

As trading moved out the curve, Massachusetts GO 5s of 2025 at 0.29%, Wisconsin 5s of 2025 at 0.32%-0.30%, Maryland DOT 5s of 2025 at 0.27%-0.26%.

California 5s of 2029 at 0.71% versus 0.61% Tuesday.

Florida PECO 5s of 2029 at 0.70%. Washington GO 5s of 2032 at 0.88% versus a week ago at 0.85%. Hennepin County, Minnesota, 5s of 2032 at 1.00%-0.97% versus 0.86% on Jan. 29.

Out longer, New York City TFA 4s of 2038 traded at 1.66%-1.65% versus 1.54% on Feb. 11 and originally priced at 1.60%. New York City water 5s of 2041 at 1.50%.

Texas water 4s of 2045 traded at 1.49%-1.43%.

As of Wednesday, the movement in municipals had little effect on pricing in the primary market as there would need to be more supply to absorb the new levels or reveal any noticeable impact, sources said.

"There is not enough supply to get a pure read, especially with the shortened holiday week," the underwriter said, adding there would be a better picture with more hearty supply expected in the coming weeks.

“Once there is more supply pressure the market could definitely get a lot more interesting and more volatile,” he said. “Is there still a lot of money that hasn’t changed hands? Yes. Is the Street still light? Yes,” he said. “I’m trying to be patient — I’m bidding things — but saving some ammunition.”

With yields and ratios at all-time historic lows, it adds to the overall concern for investors, he added.

“You can't deny the type of nominal yields that are out there,” he added, pointing to the five-year municipal to Treasury ratio which was at 39.2% on Wednesday.

Competitive deals

Nashville Davidson Counties, Tennessee, (/AA//) sold $551 million of general obligation unlimited tax bonds to BofA Securities. Bonds in 2022 with a 5% coupon yield 0.06%, 5s of 2026 at 0.29%, 4s of 2031 at 0.86%, 1.75s of 2036 at 1.71%, and 2s of 2041 at 1.97%.

Little Rock School District #1, Arkansas, (Aa2///) sold $176.6 million of general obligation limited tax bonds to Wells Fargo Securities. Bonds in 2026 with a 5% coupon yield 0.35%, 2s of 2031 at 1.31%, 2s of 2036 at 1.72%, 2s of 2041 at 1.92% and 2s of 2043 at 2.00%.

Bellwether Howard County, Maryland, (/AAA//) sold $123 million of general obligation unlimited tax bonds to BofA Securities. Bonds in 2022 with a 5% coupon yield 0.06%, 5s of 2026 at 0.31%, 5s of 2031 at 0.79%, 1.75s of 2036 at 1.67% and 2s of 2040 at 1.58%.

The issuer also sold $26 million of GO ULT to Citigroup Global Markets Inc. Bonds in 2021 with a 5% coupon yield 0.05%, 5s of 2026 at 0.29%, 4s of 2031 at 0.80%, 2s of 2036 at 1.40%, 2s of 2041 at 1.64%, 2s of 2046 at 1.76% and 2s of 2050 at 1.85%.

Negotiated deals

BofA Securities priced $295 million of taxable general obligation refunding bonds for Wisconsin (Aa1/AA//AA+). Bonds all priced at par: 2022 at 0.11%, 2026 0.80%, 2028 1.22%.

KeyBanc Capital Markets priced $205.6 million of Franklin County, Ohio, school facilities construction and improvement unlimited tax general obligation bonds for Gahanna-Jefferson City School District, Ohio, (Aa3/AA//) Assured Guaranty insured. Bonds in 2021 with a 2% coupon yield 0.10%, 2s of 2026 at 0.47%, 3s of 2031 at 1.07%, 3s of 2036 at 1.44%, 3s of 2041 at 1.70%, 2s of 2050 at 2.17%, 3s of 2057 at 2.06% and 2.125s of 2057 at 2.23%.

Goldman Sachs & Co. LLC priced $193 million of essential housing revenue bonds (social bonds) for the CSCDA Community Improvement Authority (NR/NR/NR/NR). Bonds in 2056 with a 3.125% coupon yielded 3.30% and bonds in 2041 with a 2.875% coupon yield 2.875%.

Citigroup Global Markets Inc. priced $125 million of homeowner mortgage revenue social bonds (non-AMT) for the Florida Housing Finance Corp. (Aaa///). All bonds priced at par. Bonds in 2022 with a 0.10% coupon yield 0.10%, 1/2026 0.45%, 7/2026 0.50%, 1/2031 1.40%, 7/2031 1.45%, 1/2033 1.65%.

ICI reports record $3.483 billion more inflows

Long-term municipal bond funds and exchange-traded funds saw combined inflows of $4.093 billion in the week ended Feb. 10, the Investment Company Institute reported Wednesday.

In the previous week, muni funds saw a revised inflow of $3.209 billion, ICI said.

Long-term muni funds alone had an inflow of $3.483 billion in the latest reporting week after an inflow of $2.605 billion in the prior week.

ETF muni funds alone saw an inflow of $610 million after an inflow of $604 million in the prior week.

Taxable bond funds saw combined inflows of $14.482 billion in the latest reporting week after an inflow of $24.724 billion in the prior week.

ICI said the total combined estimated inflows from all long-term bond funds and ETFs were $18.576 billion after an inflow of $27.935 billion in the previous week.

Secondary market

High-grade municipals were weaker across the scale, according to final readings on Refinitiv MMD's AAA benchmark scale. Short yields were at 0.06% in 2022 and rose two basis points to 0.10% in 2023. The 10-year rose to 0.76% and the 30-year to 1.42%.

The ICE AAA municipal yield curve showed short maturities at 0.08% in 2022 and rising two basis points to 0.12% in 2023. The 10-year rose five basis points to 0.74% while the 30-year yield rose five to 1.42%.

The IHS Markit municipal analytics AAA curve showed yields at 0.09% in 2022 and plus two basis points to 0.10% in 2023 while the 10-year rose four to 0.71% and to 30-year rose four to 1.40%.

The Bloomberg BVAL AAA curve showed yields at 0.07% in 2022 and up two basis points to 0.10% in 2023, while the 10-year rose five basis points to 0.74%, and the 30-year yield rose four basis points to 1.42%.

The three-month Treasury note was yielding 0.09%, the 10-year Treasury was yielding 1.29% and the 30-year Treasury was yielding 2.05% near the close. Equities were mixed with the Dow up 93 points, the S&P 500 fell 0.05% and the Nasdaq fell 0.57%.

Economy

The major economic indicators released Wednesday — retail sales and the producer price index — showed sharp increases, while a regional service sector survey suggested continued weakness.

Minutes of the latest Federal Open Market Committee meeting suggested the economy was “still far” from price stability and maximum employment and reaching those goals would take “some time.”

The Fed has said it will not reduce its monthly purchases of $120 billion of Treasuries and mortgage-backed securities until substantial progress has been made toward achieving its dual mandate.

Retail sales gained 5.3% in January after a 1.0% drop in December, while excluding autos sales rose 5.9% after a 1.8% decline a month earlier.

Economists polled by IFR Markets expected each number to rise 1.0%.

“Fresh fiscal stimulus and increased mobility has helped boost consumer spending after three consecutive months of retail sales decline,” according to the Morgan Stanley research team, led by Ellen Zentner. They note the $600 December stimulus checks played a role in the growth.

“Three factors account for the sharp rebound in sales last month,” said Grant Thornton Chief Economist Diane Swonk. “Stimulus checks, which reached consumers’ wallets even faster than they did last spring; the fact that January tends to be an extremely weak month for consumers; and a receding pace of infections which brought people back to the stores and online.”

She added, “The results overstated the impact on consumer spending and will dissipate somewhat as we deal with the deep freeze and power outages of February.”

The widespread gains were noted by Roiana Reid, U.S. economist at Berenberg Capital Markets. “Remarkably, all sales categories increased in January and nine out of 13 are above their pre-pandemic levels,” she said.

Separately, the producer price index for final demand rose the most in a month in January, the Labor Department said Wednesday.

PPI soared 1.3% in the month, while the core index climbed 1.2%, exceeding expectations. The 1.3% was the largest since December 2009, when the index began. Economists expected the headline number to rise 0.4% and the core to gain 0.3%.

Year-over-year PPI was up 1.7% and the core was up 2.0%. Economists were looking for 0.9% and 1.1% gains, respectively.

The numbers "surprised markedly to the upside," the Morgan Stanley research team noted. "Moreover, components that feed into [personal consumption expenditure] inflation were stronger, indicating we are likely to see another month where core PCE inflation outperforms a flat core [consumer price index] reading.

"After an overwhelmingly disappointing holiday season with monthly sales negative October to December, the consumer appears to have found more solid footing as we head further into the new year, willing to satisfy some pent-up demand for everything from electronics to furniture to clothing," noted Stifel Chief Economist Lindsey Piegza.

But, she cautioned, one good month doesn't mean consumers are back. "With labor market conditions still fragile and the broader recovery in the economy still uncertain amid the seemingly unending pandemic, the average American is still struggling."

Also released Wednesday, industrial production increased 0.9% in January after a 1.3% gain in December, while capacity use rose to 75.6% from 74.9%.

Economists expected production to grow by 0.4% and capacity use of 74.8%.

Elsewhere, business inventories rose 0.6% in December after a 0.5% gain in November. Economists projected 0.5% growth.

Also released Wednesday, the National Association of Home Builders/Wells Fargo Housing Market Index suggested higher builder confidence, rising to 84 in February from 83 in January.

While demand is "solid" as a result of low mortgage rates and other factors, "we expect to see some cooling in growth rates for residential construction in 2021 due to cost factors, supply chain issues and regulatory risks," according to NAHB Chief Economist Robert Dietz.

The service sector in the New York region “continued to decline significantly” in February although “at a slower pace than” in January, according to the Business Leaders Survey release by the Federal Reserve Bank of New York.

The business activity index narrowed to negative 21.5 in February from negative 31.8 in January, while the business climate index widened to negative 65.0 from negative 63.3, suggesting worse than normal conditions.

The wages and prices indexes all grew, and capital spending and the number of employees improved, but remained negative.

Expectations for six months from now were up, with the business activity index gaining to 32.5 from 21.6 and the business climate soaring to 34.4 from 16.7.

Muni primary market to come

The New York City Municipal Water Finance Authority said it will sell about $523 million of tax-exempt fixed-rate bonds next week.

The bonds will be sold on Tuesday, Feb. 23, after a one-day retail order period.

The bonds will be priced by book-running lead manager Barclays Capital with BofA Securities, Goldman Sachs, Loop Capital Markets, Raymond James, Siebert Williams Shank and UBS Financial serving as co-senior managers.

Proceeds will be used to fund capital projects and refund certain outstanding bonds.

The Regional Transportation District of Colorado's tax-exempt and taxable green bond deal (Aa2/AA-/AA/) has two pieces. The first, $519 million of taxable sales tax revenue refunding bonds (FasTracks Project) climate bond certified green bonds are expected Thursday. Goldman Sachs & Co. LLC is head underwriter.

Goldman will also run the books on $298 million of tax-exempt sales tax revenue refunding bonds (FasTracks Project) climate bond certified green bonds on Thursday.

Tucson, Arizona, (A1/AA-/A+/) is set to price $658 million of taxable certificates of participation on Tuesday. Serials 2022-2036, term 2047. Assured Guaranty insured. FHN Financial Capital Markets is lead underwriter.

The Pennsylvania Housing Finance Agency (Aa2/AA+//) is set to price $157.9 million of single-family mortgage AMT and non-AMT revenue bonds on Wednesday. $122 million Series A, serials 2027-2033, terms 2036, 2041, 2043, 2049 and $35.8 million of Series B, serials 2021-2027. Jefferies LLC is senior manager.

The San Diego Unified School District (Aa2//AAA/AAA) is set to price $113.7 million of dedicated unlimited ad valorem property tax general obligation refunding bonds on Thursday. Goldman Sachs & Co. LLC is head underwriter.

The Sierra Joint Community College District, Placer, El Dorado and Sacramento Counties California (Aa1/AA//) is set to price $97 million of general obligation bonds on Thursday. Piper Sandler & Co. is bookrunner.

San Mateo Union High School District, California, (Aaa///) is set to price $96.2 million of general obligation bonds on Thursday. Stifel, Nicolaus & Company Inc. is head underwriter.

Durango School District 9-R, La Plata County, Colorado, (Aa2///) is set to price $90 million of general obligation bonds, insured by Colorado State Intercept Program, serials 2024-2040. RBC Capital Markets is bookrunner.

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